



AGENDA REPORT

TO: Edward D. Reiskin
City Administrator

FROM: Erin Roseman
Director of Finance

SUBJECT: Informational Report Regarding FY
2021-23 Proposed Budget

DATE: June 9, 2021

City Administrator Approval

Date: Jun 14, 2021

RECOMMENDATION

Staff Recommends That The City Council Receive An Informational Report Regarding The Mayor's Proposed Fiscal Year 2021-23 Proposed Operating And Capital Improvement Budgets

EXECUTIVE SUMMARY

Staff is providing to the City Council input as requested on the Budget Advisory Committee (BAC) recommendations.

REASON FOR SUPPLEMENTAL

To provide staff feedback to recommendations that were submitted subsequent to the original informational report.

BACKGROUND / LEGISLATIVE HISTORY

The [Consolidated Fiscal Policy](#) requests the Budget Advisory Committee "to submit published, written report to the full City Council regarding the proposed budget with any suggested amendments no later than June 1 in budget adoption years." The BAC submitted a [report](#) that was heard at the June 7, 2021 City Council retreat. At that meeting, the City Council directed the Administration to provide response.

ANALYSIS AND POLICY ALTERNATIVES

The BAC made the following recommendations. Below each is *feedback* from staff.

A. Strengthening of Vital Services Stabilization Fund.

The Vital Services Stabilization Fund played an important role in first responding to the economic downturn caused by the Pandemic. We support the effort in this budget to again begin replenishing this Fund in the amount of \$4.83m.

However, it is essential to take action as soon as fiscally prudent to further strengthen the Fund. To accomplish this, we recommend adopting a policy to set aside a greater portion of excess RETT funds and dedicating 25% of any unexpected revenues in excess of \$1m to the account.

Staff Feedback: Staff concurs that the Council should consider accelerating replenishment of the VSSF. It took the City roughly five years to build the VSSF up to the level it was last year, when the Council drained the fund to blunt the effects of the recession brought on by the pandemic. As reported in the recent [Third Quarter report](#), had the City's fiscal policies been in place, the City would be putting aside \$27.98 million into the VSSF. Rather than use all of the excess revenue to offset one-time ARPA funding to free up resources to spend in the upcoming fiscal cycle, the Council could direct some of those excess revenues to the VSSF to accelerate its replenishment.

B. Avoiding Assuming County Responsibility Services.

Oakland is faced with structural changes in a number of areas to meet challenges in areas such as Homelessness, Housing, Reimagining Public Safety, Public Health, alcohol and drug services. The County of Alameda has a significant responsibility in many of these areas and significantly greater resources. We recognize the uncertainties around Measure W, but, assuming the validation of this measure, very significant monies would become available for homeless services. Similarly, the MACRO program utilizes mental health services, which in many cases are a primary county responsibility. We recommend that Oakland establish a working relationship with Alameda County at all levels.

Staff Feedback: Staff concurs that the City should avoid assuming responsibility for services that fall under the purview of the County, but rather should effectively engage with the County to ensure the provision of needed County services in Oakland.

C. One Time Revenues Funding on Going Programs

The Proposed Budget makes significant use of one-time revenues to fund ongoing programs. We estimate this to be over \$200m. We recommend that all such actions be clearly identified in the Budget. We further recommend that, at the time of each quarterly financial report, the Council review the financial situation to determine if funding can be transferred to an ongoing financing sources and the one-time funds be used to either fund onetime programs or to further strengthen the financial stability of the city.

Staff Feedback: Staff concurs that use of one-time revenues to fund ongoing programs should be clearly identified and the City's fiscal situation reviewed quarterly.

D. Funding of Police Overtime.

Year after year, OPD spends millions more than its allotted budget on overtime spending. Instead of addressing the problem, the Mayor's proposed budget simply doubles the budget for police overtime - roughly \$61m over the next two years, up from \$32m during the last two-year cycle. We recommend that instead of increasing the budget for police overtime, the City adopt a policy to control the staggering cost that is straining the overall City budget.

Staff Feedback: Staff does not concur with this recommendation. The Police Department does have a policy in place, effective December 2020, to improve overtime control. The level of overtime proposed for the Police Department (and Fire Department) reflects the amount required to provide baseline levels of service relative to staffing levels. This funding approach is consistent with past recommendations of the City Auditor and the Council's budget analyst. Means of reducing overtime would be to increase staffing (which this budget proposes) and/or decrease services.

E. Funding of OPEB

We support continued efforts to fund the OPEB deficit, and to reduce that long-term liability.

Staff Feedback: There is no recommendation made, but staff agrees that at a minimum the OPEB funding strategy codified in the Consolidated Fiscal Policy should be followed, as proposed in the budget.

F. State Budget actions

It is anticipated that the California State Budget will be sent to the Governor by June 15th. Based on the May Revise, it is probable that the budget will contain funding for some of the city programs which are significantly challenged such as housing and homelessness. We recommend that, when possible, such funding be used to bring further stability to various affected city programs.

Staff Feedback: Staff concurs with this recommendation.

G. Implementing Reimagining Public Safety

This budget, in certain aspects, has not aligned with nor explained the variances to the recommendations brought forth by the Reimagining the Oakland Police Force Task Force (Task Force). Specifically, the Task Force recommendations focused on the management of the OPD overtime budget, the thoughtful transitions from the OPD budget to social and other City services and the cessation of certain OPD activities. This budget does not address nor explain the absence of these recommendations.

Staff Feedback: The proposed budget does include some items recommended by the Task Force, such as moving some vehicle enforcement functions out of the Police

Department and funding MACRO. As mentioned above, the Department has put in place a new overtime management policy. City Council action on the recommendations of the Task Force did not happen until early May; too late for inclusion in the proposed budget.

We anticipate that there will be significant proposals to implement the recommendations to reimagine public safety. We recommend that, when services are proposed to be shifted, it be done either in a zero-sum manner or there be recognition that there will be added costs during the time when services are being shifted.

Staff Feedback: Staff concurs that costs will likely be higher during transitions as alternative responses develop capacity and efficacy. Long term savings may be realized if/when demands for Police services decrease, which can happen only after alternative responses are in place, up, and running.

H. Long term Liabilities

The proposed budget recognizes long term liabilities of \$2.658 billion. We recommend that every possible action be taken to manage and reduce that liability.

Staff Feedback: Staff concurs with this recommendation. A forthcoming report from the City Auditor may further policy decisions in this area.

I. Measure Q

It is critical that the new ongoing \$4,150,000 in Measure Q revenue be budgeted for enhanced services that meet the deliverables in the Ballot Measure - this requires new staff be hired to assure that services to the community are improved. The one-time fund balance of \$4,010,020.54 should focus on minor capital expenditures for improving parks, homeless services and clean water. The current proposal is unclear and allocates \$2,250,000 "to be decided by the Council".

Staff Feedback: Staff concurs that one-time revenues in Measure Q be used for one-time expenditures like minor CIP. The Budget Errata contains updates to Measure Q budget allocations based on the input from the Measure Q advocates and oversight committee members. As for the \$2,250,000 in unallocated money that was provided to Council for their discretion to spend, staff also shared a recommended list of capital projects from Public Works. Council is currently reviewing this list and potentially can allocate from this list.

J. Port Revenues

The Covid Pandemic and its impact upon our local economy and upon this year's budget calls for BAC to once again make a strident call to consider alternative and or new sources of revenue. We have called for a focus and on planning for revenues in past budget commentary but this year's reliance on one-time revenues from the Federal government to assist in closing a significant budget deficit makes this even timelier to look at revenue sources.

There will likely be ongoing expenditures that will be covered by these unique one-time, non-local, and non-consistent sources of revenue that will need to rapidly find an ongoing and consistent source of funding. That is why we recommend that the Mayor, City Administrator, and the Council consider looking long at its current City Charter and specifically the provision for the Port of Oakland that stipulates the sources and uses of monies from the Port of Oakland.

The Port of Oakland, which is established within the City Charter and is in fact an entity governed by the City's Charter and its appointed Port Commissioners, is the 5th busiest container port in the United States, and the Oakland Airport which is entertaining an expansion has grown over time to a busy regional and now international gateway for both business and pleasure travel, and for additional cargo handling. Both the Maritime Port and the Airport are one of the largest job engines within the overall San Francisco Bay Area.

A study should be taken to see what it would take within the existing Charter, or with Charter Amendments, to increase the availability and consistency of the transfer of revenues from the City of Oakland Port Operations to the City's Budget. This needs to include looking at what restrictions currently exist, but which could be lifted and or changed, and this should be done in a coordinated way with the Port of Oakland in its budget and financial planning.

The time has come to look at this option even with the existing City Charter restrictions as Oakland continues to grow and its services need a solid and sustainable funding source.

Recognizing the complexity of these issues, we Recommend that the Council authorize the retention of a consultant to review and report upon the legal and fiscal aspects of obtaining financial support from the Port of Oakland.

Staff Feedback: There is no recommendation made for Staff. The City Council may wish to retain a consultant to review and report upon the legal and fiscal aspects of obtaining financial support from the Port of Oakland. If City Council wishes to fund this study and retain a consultant, they would need to provide the appropriate resources in the budget.

FISCAL IMPACT

There is no fiscal impact associated with this supplemental report.

PUBLIC OUTREACH / INTEREST

There was no public outreach done in the development of this supplemental report.

COORDINATION

The Finance Department worked with the City Administrator's Office on this report.

ACTION REQUESTED OF THE CITY COUNCIL

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For questions regarding this report, please contact Lisa Agustin, Budget Administrator, at (510) 238-2989.

Respectfully submitted,



Erin Roseman (Jun 14, 2021 09:23 PDT)

ERIN ROSEMAN
Director of Finance

21-0617 budget supplemental report re BAC recommendations_FINAL - signed (002)

Final Audit Report

2021-06-14

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